

Establishing an Investment Committee for Your Company's Retirement Plan

As the plan sponsor of your company retirement plan, you have a fiduciary obligation to manage the investment options offered to participants. You also have the responsibility to monitor these investments on an ongoing basis to be sure they continue to be prudent and appropriate for use as required by the Employee Retirement Income Security Act (ERISA).

A best practice for plan sponsors of retirement plans is to establish an investment committee to manage the investment process for the plan. This committee is usually separate from the benefits committee, which typically is responsible for the non-investment related issues such as plan design, administration issues and employee communications.

In this highly charged environment of corporate governance, regulatory scrutiny and fiduciary liability exposure, the creation of a separate investment committee for your organizations retirement plan is a sound risk management strategy for plans of all sizes.

OBJECTIVES OF THE COMMITTEE:

Typically, the investment committee has the following objectives:

- Establish a formal, prudent process to manage the plan's investment strategy
- Initiate and implement investment decisions
- Analyze, monitor and document on a regular basis
 - Service providers
 - Products offered
 - Related expenses

RESPONSIBILITIES OF THE COMMITTEE:

The Investment Committee has several responsibilities, which generally include:

- Reviewing and approving the fundamental operations, financial operations, and committee charter
- Holding meetings regularly
- Developing an investment policy statement
- Establishing due diligence procedures for selecting and monitoring the investment options
- Evaluating manager's performance and taking appropriate actions
- Selecting and removing investment managers
- Prudently selecting and reviewing activities of "prudent experts"
- Reviewing investment management fees paid by the plan and participants
- Reviewing procedures for providing financial and operational information to the board
- Documenting the investment process and decisions made

ESTABLISHING AN INVESTMENT COMMITTEE

Establishing an Investment Committee includes: drafting a charter, choosing committee members and orientation of new committee members:

Draft Charters: The draft charter should define the following:

- Purpose
- Status and Membership
- Meetings — Frequency; action taken for irregular attendance



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Choosing Committee Members: When choosing committee members the following should be considered:

- Related experience: benefits, accounting, legal, or finance
 - Senior members of HR, Finance and Operations
 - Ideally headed by someone with understanding of capital markets such as the CFO
- Odd number of voting members - usually 3 or 5 individuals
- Not too large: Large committees become unwieldy
- Comprised of permanent and non-permanent members
- CFO and VP of HR probably permanent members of the committee
- Non-permanent members should rotate off the committee in staggered years to avoid disrupting operations

Orientation of New Committee Members: Each committee member should acknowledge and accept the position and duties in writing. The orientation should include:

- Education on ERISA fiduciary duties, plan document, plan procedures and service providers
- Review of plan documents should include:
 - Understanding the plan's investment strategy
 - Willing to perform the duties of a fiduciary to the best of abilities
 - Delegation to prudent experts and proper oversight
- Inform committee members that ignorance, bad communications or inexperience will not be adequate legal defense. The government protects the participant not the plan sponsor or investment committee.

MEETINGS & DOCUMENTATION

Once you have established the investment committee, you will need to conduct meetings, set an agenda and document your decisions.

Structure for Committee Meetings: Once you have established the investment committee, you will want to conduct meetings and document your decisions.

- Meet two to four times per year
- Meeting length should be sufficient to review issues, express views and reach resolution
- Person leading the committee should gather the following data:
 - All relevant investment material
 - Reports from plan advisor
 - Issues to be addressed
- Data and Agenda should be distributed before the meeting

Set an Agenda:

- Review minutes from previous meeting
- Compare actual performance results to benchmarks in the investment policy statement
- Monitor all changes in:
 - Portfolio management team (if any)
 - Dramatic shifts in assets under management
 - Changes in investment style, indicating style drift
 - Consistency with the stated investment objective
 - Material change in management fees or associated costs
 - Regulatory concerns — investment manager cited for regulatory issues

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Documentation: One of the most important actions the investment committee should take to demonstrate a prudent process is to be committed to keeping documentation for all decisions made by the committee. Documentation should include:

- Dates of meetings
- Clear process for recording activities and decisions
- Accurate account of decisions

CREATE A FIDUCIARY AUDIT FILE TO DOCUMENT YOUR PROCESS

- Demonstrate that investment decisions are procedurally prudent
- Show that process was properly established and followed
- Document all significant decisions relevant to the plan
- Investment committee contributes investment-related documentation to the Audit File

HOW WE CAN HELP

We can provide you with more information on how to establish an investment committee and a copy of our 401(k) Plan Sponsor Fiduciary Audit Checklist.

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